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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of)

)
Petition For Rulemaking To)
Determine The Terms And Conditions)
Under Which Tier 1 LECs Should Be)
Permitted To Provide InterLATA)
Telecommunications Services)

RM 8303

COMMENTS OF AMERITECH

Ameritech files these Comments in support of the Petition For Rulemaking in the above matter. The Commission should inquire into whether the provision of interLATA services (hereinafter "long-distance services") by local exchange carriers is in the public interest under the conditions proposed in the Petition and, if so, the terms and conditions under which carriers so electing should provide long-distance services. Although Ameritech did not join in the Petition, it agrees that the provision of long-distance services by Regional Bell Operating Companies ("RBOCs") is in the public interest, and that adequate mechanisms exist and can be adapted to eliminate the possibility of discrimination or cross-subsidy concerning long-distance services.

Today, the RBOCs are precluded from providing long-distance services to their customers under the terms of the Modified Final Judgment ("MFJ") entered at the resolution of the Department of Justice's 1974 antitrust complaint against the former Bell System.¹ The five RBOCs (Bell Atlantic,

¹See generally *United States v. American Tel. & Tel. Co.*, 522 F. Supp. 131 (1982), *aff'd mem. sub. nom.* *Maryland v. United States*, 460 U. S. 1001 (1983) [hereinafter "Divestiture Proceeding"].

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BellSouth, NYNEX, Pacific Telesis, and Southwestern Bell, hereinafter "Five RBOCs") filing this Petition request that the Commission undertake a rulemaking to establish the rules and procedures governing their provision of long-distance services, including safeguards necessary to prevent discrimination and cross-subsidy. They correctly argue that the "relevant safeguards already exist, they simply need to be adapted and applied to BOC provision of interLATA services."² The Five RBOCs also ask the Commission to reaffirm that RBOC participation in long-distance is in the public interest.

Although the proposal made by the Five RBOCs is fundamentally different from the plan³ recently filed by Ameritech with the Commission seeking, among other things, a declaration that Ameritech's provision of long-distance services is in the public interest, the instant petition should also be approved. Like Ameritech's Customers First Plan, the Five RBOCs' Petition will benefit consumers by making long-distance services more competitive, while at the same time preventing discrimination and cross-subsidy.

1. RBOC Provision Of InterLATA Services Is In The Public Interest.

The Five RBOCs argue that the provision of long distance services by the RBOCs has consistently been found by the Commission to be in the public interest because the prohibition is "hurting consumers and hindering the development of the advanced telecommunications infrastructure so critical

²Petition at iii.

³Petition for a Declaratory Ruling and Related Waivers to Establish a New Regulatory Model for the Ameritech Region ("Customers First Plan"), Case No. DA 93-481, filed March 1, 1993.

to U. S. competitiveness in a global economy.”⁴ They then specify in detail many public interest benefits of RBOC provision of long-distance services.⁵

Ameritech fully agrees with and supports the arguments made by the Five RBOCs that RBOC provision of long-distance services is in the public interest. In addition, in its Customers First Proceeding, Ameritech filed two economic studies by Professor David Teece, a noted economist, which developed the consumer benefits of its provision of long-distance services.⁶ Dr. Teece also found that there are significant consumer “costs” resulting from delaying long-distance relief. Ameritech will not repeat those findings here but incorporates both studies by reference. In summary, Dr. Teece finds that Ameritech's provision of long distance will produce five types of consumer benefits:

- Spur price competition. In the Supplemental Study at Section 3.2, Dr. Teece calculates that Ameritech's entry into the interLATA business will benefit consumers through significant price reductions of at least 5%, worth roughly at least \$150 million in savings.
- Spur non-price competition. “Non-price competition will come in the form of new services, because Ameritech will have the incentive and the capacity to introduce systemic innovations which require investments in both the local and the long distances segments.”⁷

⁴Petition at i.

⁵Petition at 10-25.

⁶See, Restructuring The U. S. Telecommunications Industry For Global Competitiveness: The Ameritech Program in Context, Filed with the Commission in the Customers First Proceeding on April 1, 1993 at 73-81 (“The Ameritech Plan in Context”); The Ameritech Plan in Context, Supplemental Paper, Attachment J to Ameritech's Reply Comments at 46-49 (“Paper”).

⁷The Ameritech Plan in Context at 75.

- Accelerate the introduction of new systems and network technologies. "Systems (network) technologies are ubiquitous in telcom. The inability of RBOCs to operate interLATA vitiates their capacity to deliver the services in a fashion acceptable to customers."⁸
- Enhance the "efficiency of Ameritech's services as they are currently configured, leading to lower prices and better service.... Without the interLATA restriction, Ameritech could optimize its access network service over multiple LATAs reducing the number of tandem switches, signal transfer points, and transmission facilities required to meet customer needs."⁹
- Increase the value of broadband services. Elimination of the long-distance quarantine will enable RBOCs to efficiently service customers who span several LATAs. "The removal of interLATA restrictions will, at a minimum, increase the size of the potential customer base, and bring forward services with significant scale economies and network externalities."¹⁰

There is every reason to believe that these reasons also apply to the other RBOCs. For that reason, the Commission should act expeditiously to facilitate the entry of the RBOCs into the interLATA marketplace. The costs of any further delay are unacceptable.

2. Existing Safeguards Will Prevent Discrimination And Cross-Subsidy.

⁸The Ameritech Plan in Context at 75.

⁹The Ameritech Plan in Context at 75-76.

¹⁰The Ameritech Plan in Context at 75.

Petitioners argue that "the Commission already has in place many, if not most, of the regulatory mechanisms necessary to govern RBOC long-distance services and to prevent discrimination and cross-subsidy."¹¹ Ameritech agrees. In its Reply Comments filed in the Customers First proceeding, Ameritech established the safeguards that could be applied to its provision of long-distance services under its Plan to prevent discrimination and cross-subsidy.¹² There is no question that adequate safeguards can be applied to the provision of long-distance service to prevent discrimination or cross-subsidy.

3. The Customers First Plan And The Five RBOCs' Rulemaking Should Be Approved In Separate Proceedings.

Some parties have asserted that regulatory reform plans, such as proposed by the Five RBOCs and Ameritech, should be arbitrarily lumped into a consolidated general rulemaking proceeding.¹³ However, Ameritech has already demonstrated in its Customers First Reply Comments that such is not the case. Rather than reargue the issue here, Ameritech refers the Commission to Ameritech's Customers First Reply Comments.¹⁴ The essential point is that the plans of the Five RBOCs and Ameritech propose fundamentally different market structures and therefore call for very different regulatory models and safeguards. There would be no benefit to combining them. Rather, their consolidation would confuse the issues and delay both plans.

¹¹Petition at 25-40.

¹²See, Ameritech's Reply Comments filed with the Commission concerning the Customers First Plan on July 30, 1993 ("Ameritech Customers First Reply Comments") at 29-43.

¹³See, e.g., Comments on Customers First Plan filed and comment MCI at 10-12; Time Warner at 3 in the Rochester Open Market Plan proceeding, DA 93-687.

¹⁴See, Ameritech's Reply Comments filed with the Commission concerning the Customers First Plan on July 30, 1993 ("Ameritech Customers First Reply Comments") at 57-64.

Any argument that Ameritech's Customers First Plan should be consolidated into a proposed general rulemaking ignores the fact that the Customers First Plan need not apply to the rest of the industry. The Customers First Plan is a unique proposal because it will foster and accommodate local competition through local loop unbundling, integration of local competitors into Ameritech's network and usage subscription for intraLATA usage services. The Five RBOCs' Petition does not propose these steps. A review of the comments filed by other LECs in the Customers First Proceeding clearly demonstrates that other LECs, including the Five RBOCs, do not propose unbundling for their exchanges.¹⁵

Because the Customers First Plan does not have general applicability to other LECs, it should not be considered in a proceeding applicable to the industry as a whole. However, there is no reason to deny its significant benefits to consumers pending a major inquiry into the terms and conditions under which LECs, not proposing local unbundling, integration or usage subscription, might be permitted to offer long-distance services.

Further, the data and experience gained from implementing long-distance services under the Customers First Plan will be valuable to this rulemaking. Some actual experience will be worth years of argument and speculation. On the other hand, safeguards that may be developed in the

¹⁵The positions of the other RBOCs in their comments filed in the Customers First proceeding demonstrate the uniqueness of the Customers First Plan. In this regard, Bell South states that "[m]uch of Ameritech's interconnection proposals . . . reflect business decisions that are peculiar to Ameritech and have little general applicability." BellSouth at 1. Likewise, PacTel states that the Customers First Plan "is specific to its [Ameritech's] five-state region" and "depends heavily on circumstances that vary significantly among regions." PacTel at 2-3. Thus, some RBOCs conclude that, while the Customers First Plan should be approved, it should not be applied to them. See, e.g., NYNEX at 19; PacTel at 12; Southwestern Bell at 5. The comments filed by associations of small independent LECs also opposed the extension of local competition to their exchanges. See, National Rural Telephone Association at 10; National Telephone Cooperative Association at 3-4; Organization for the Protection and Advancement of Small Telephone Companies at 6; and Staurulakis at 6-7.

instant proceeding could be applied to Ameritech at the time they are adopted.

In other contexts, the Commission has realized the value of conducting trials while completing work on major regulatory undertakings. For example, while the Commission continues to develop rules to govern the merging family of Personal Communications Services (PCS),¹⁶ it has issued nearly 200 experimental licenses for market, technical and other trials.¹⁷ These trials continue to provide useful data to the Commission and to the industry at large, even while it considers such expansive issues as the service definition, technologies to be used, who the providers will be, and what markets will be defined. The Customers First Plan will likewise serve as a regional demonstration of the public benefits of free and open competition across the full breadth of the telecommunications marketplace.

4. Conclusion

Although the plans of the Five RBOCs and Ameritech differ, there is every reason for the Commission to conclude that each plan will facilitate the development of competition and benefit consumers. In addition, the implementation of different plans will provide diverse experience and a standard of comparison for the Commission and the industry. For those

¹⁶In the Matter of Amendment of the Commission's Rules to Establish New Personal Communications Services, Gen. Docket 90-314.

¹⁷Ameritech itself holds such a license (FCC File Nos. 1686-EX-PL-90 and 2318-EX-ML-91).

reasons, the Commission should grant the request for a rulemaking proceeding apart from its prompt consideration of the Customers First Plan

Respectfully submitted,

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